

Message Text

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ACTION NEA-10

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SUBJ: SRI LANKA'S WHEAT FLOUR POSITION

REF: A) COLOMBO 2906 B) COLOMBO 2921 C) COLOMBO 2978

D) STATE 238705

1. SUMMARY: IN REDUCTION DIRECTLY ATTRIBUTABLE TO EXTREME FOREIGN EXCHANGE CONSTRAINTS, FINANCE MINISTER ANNOUNCED NOV 6 IN 1975 BUDGET PRESENTATION THAT 1975 FLOUR IMPORTS NOW PLANNED AT 346,000 TONS. HE SAID THAT FIGURE WOULD BE 100,000 TONS LESS THAN IN 1974. ON NOV 8, "CEYLON DAILY NEWS" REPORTED SUCCESSFUL NEGOTIATION OF 160,000 TONS COMMERCIAL CREDIT FLOUR PURCHASE FROM FRANCE. WE UNDERSTAND RECENTLY RETURNED GSL MISSION TO CANBERRA WAS NEGOTIATING FOR 100,000 TONS FLOUR BUT AUSTRALIAN GOVERNMENT HAS NOT YET DECIDED ON TWO-YEAR CREDIT. WITH NO ASSURANCE UNITED STATES WILL FULFILL MAY AID GROUP PL-RIP PLEDGE AND WITH UNFINANCED FOREIGN XCHANGE GAP MUCH WORSE THAN YEAR AGO, GSL HAS THUS BEEN FORCED TO CUT PLANNED FLOUR IMPORTS HEAVILY AND TO COVER REDUCED IMPORTS THROUGH LIMITED OFFICIAL USE

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COSTLY NON-CONCESSIONAL PURCHASES. OVER-ALL 1975 FOOD IMPORT

PROGRAM LEAVES LITTLE MARGIN FOR DOMESTIC CROP SHORTFALLS,
FOR FINANCIAL CONTINGENCIES, OR FOR END-1975 CARRY-OVER.

DOMESTIC POLITICAL DEBATE IS INTENSIFYING OVER FUTURE
ECONOMIC POLICY. SRI LANKA IS CLEARLY IDENTIFIED AS
ONE OF MOST SEVERELY AFFECTED BY OIL CRISIS. AMERICAN FAILURE
SO FAR TO MAKE ANY CONTRIBUTION IS BECOMING INCREASINGLY
CONSPICUOUS, AS LOCAL PRESS ALMOST WEEKLY ANNOUNCES NEW
ASSISTANCE FROM OTHER WESTERN DONORS, COMMUNIST NATIONS,
AND MIDDLE EAST OIL-PRODUCING COUNTRIES. DESPITE CHANGED
IMPORT AND SUPPLY SITUATION, SRI LANKA'S REAL NEED FOR
AMERICAN FOOD AID AND FINANCIAL ASSISTANCE REMAINS
COMPELLING. AT HIGHEST LEVEL HERE, GSL HAS RECENTLY
REPEATED REQUEST FOR AND EXPECTATION OF SUCH ASSISTANCE. IN
POLITICAL TERMS, FULFILLMENT OF PL-480 PLEDGE IS OF UTMOST
IMPORTANCE TO CONTINUATION OF CONSTRUCTIVE BILATERAL RELATIONSHIP,
WIL REINFORCE INTERNAL STABILITY, BOTH POLITICAL AND FINANCIAL
AND WILL PROMOTE AMERICAN INTERESTS HERE.
END SUMMARY.

2. FINANCE MINISTER N.M. PERERA IN NOV 6
BUDGET PRESENTATION ANNOUNCED 346,000-TON IMPORT TARGET
FOR 1975 AT COST OF RS 756 MN (ABOUT US \$115 MN; US
\$1 EQUALS RS 6.5). THIS FIGURE HAS BEEN CONFIRMED BY PLANNING
MINISTRY EXTERNAL RESOURCES DIVISION (ERD). PERERA SAID THIS AMOUNT
WOULD BE 100,000 TONS LESS THAN 1974. AICE IMPORT FIGURE
REMAINS SAME AS REPORTED REF A AT 300,000 TONS.
AS FOOD COMMISSIONER (FC) HAD PREVIOUSLY REPORTED,
DEPUTY FC TOLD EMBASSY NOV 8 THAT FC PLAN HAD BEEN TO
IMPORT 370,000 TONS AND PERHAPS MORE IF DOMESTIC RICE CROP
SHORTFALL OCCURRED. FOREIGN EXCHANGE SITUATION, HOWEVER,
HAD FORCED PLANNING AND FINANCE MINISTRIES TO VETO
THIS PROGRAM AND SET LOWER FIGURE.

3. NOV 8 " CEYLON DAILY NEWS" REPORTS SUCCESSFUL
NEGOTIATION WITH FRENCH FIRM FOR 160,000 TONS WHEAT FLOUR
ON SAME TERMS (PRESUMABLY TWO YEARS) AS 1974 90,000-TON
PURCHASE.

4. WE HAVE RECENTLY UNDERSTOOD FROM FC AND AUSTRALIAN
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EMBOFF THAT GSL TEAM LED BY ERD DIRECTOR AUSTIN
FERNANDO RETURNED FROM CANBERRA ABOUT NOV 1. AFTER
NEGOTIATING FOR 100,000 TONS FLOUR ON TWO YEAR CREDIT TERMS.
ACCORDING AUSTRALIAN EMBOFF, CREDIT EXTENSION WILL REQUIRE
AUSTRALIAN CABINET DECISION. HE BELIEVES DECISION WILL REQUIRE

AFFIRMATIVE. GSL WILL ALSO MAKE USUAL ANNUAL 100,000-TON
WHEAT PURCHASE FROM AUSTRALIA, WHICH WILL YIELD ABOUT

70,000 TONS FLOUR. (DURING 1974, MUCH OF MILL YIELD HAS BEEN IN FORM COARSE FLOUR FOR DIRECT SUPPLEMENTARY DISTRIBUTION TO PLANTATION WORKERS; THUS, IT HAD NOT BEEN INCLUDED IN FC'S 1975 FLOUR TOTALS.)

5. ACCORDING FC, 1975 MONTHLY FLOUR DISTRIBUTION RATE HAS BEEN 38,000 TONS OR ANNUAL 456,000 TONS. FC PLANS 1975 CUT TO MONTHLY 35,000 TONS, OR 420,000 TONS FOR YEAR. AT THIS TIME KNOWN GSL STOCK AND SUPPLY PLANS TO COVER THIS DEMAND ARE AS FOLLOWS:

JANUARY 1, 1975 STOCK: 70,000
GIFTS 37,000
CONTRACTED FRENCH PURCHASE 160,000
MILLED FLOUR FROM AUSTRALIAN WHEAT 70,000
POSSIBLE AUSTRALIAN PURCHASE 100,000
TOTAL AVAILABLE FOR 1975 437,000
PLANNED 1975 DISTRIBUTION 420,000

DECEMBER 31, 1975 ESTIMATED STOCK OF 17,000 TONS IS LESS THAN HALF-MONTHS REQUIREMENT EVEN AT REDUCED DISTRIBUTION RATE.

66. GSL IS THEREFORE IN POSITION POTENTIALLY TO COVER REDUCED 1975 FLOUR IMPORTS FROM ASSURED AND REASONABLY EXPECTABLE GIFTS AND COSTLY CREDIT PURCHASES. PLANNED RICE AND FLOUR IMPORTS, HOWEVER, ALLOW NO MARGIN FOR NUTRITIONAL EMERGENCY SUCH AS RICE CROP FAILURE OR SHORTFALL DUE TO BAD WEATHER OR CONTINUING FERTILIZER SCARCITY; FOR FINANCIAL CONTINGENCIES SUCH AS ADVERSE WORLD COMMODITY PRICE CHANGES; OR FOR REASONABLE END-1975 STOCK. BARRING AN UNLIKELY LARGE INCREASE IN 1975 RICE PRODUCTION, FOOD IMPORT CUTS WILL PROBABLY INCREASE COSTS AND CUT LIMITED OFFICIAL USE

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SUPPLIES OF FOOD TO POOR CEYLONSE ALREADY ON BELOW-MINIMUM-STANDARD DIET.

7. WITH RESPECT TO PAYMENTS BALANCE, DESPITE FLOUR AND OTHER IMPORT ECONOMIES AND AFTER ALLOWING FOR EXPECTED 1975 FINANCING, INCLUDING AID, UNFINANCED FOREIGN EXCHANGE SHORT-FALL ANNOUNCED IN BUDGET IS RS 933 MILLION OR ABOUT \$142 MILLION. IF USG COULD HAVE ASSURED GSL THAT PL-480 PLEDGE WOULD BE FULFILLED, THIS GAP WOULD HAVE BEEN LESS, BOTH BECAUSE OF CONCESSIONAL FINANCIAL (COUNTERPART) CONTRIBUTION AND BECAUSE OF REDUCED REQUIREMENT FOR EXPENSIVE FLOUR PURCHASES.

8. COMMENT: NUTRITIONAL AND FINANCIAL IMPERATIVES SUMMARIZED ABOVE REMAIN COMPELLING, BUT WE BELIEVE

NECESSITY TO FULFILL OUR PLEDGE IS NOW EVEN GREATER FROM
POLITICAL STANDPOINT. DIVISIVE, DISRUPTIVE CONFLICT IS
GROWING WITHIN UF COALITION OVER BASIC DIRECTION OF
ECONOMIC POLICY. PRIME MINISTER AND MODERATE ECONOMIC
DECISION-MAKERS NEED ALL POSSIBLE SUPPORT FOR MORE
REALISTIC BUT POLITICALLY HAZARDOUS ECONOMIC PROGRAM
THEY HAVE IMPLEMENTED AND ADVOCATED. CONTINUED FOOD
PRICE INFLATION AND QUADRUPLD CRUDE OIL COSTS HAVE HIT
SRI LANKA'S ECONOMY EXCEPTIONALLY HARD, EVEN AMONG MOST
SEVERELY AFFECTED GROUP. DURING LAST SEVERAL MONTHS
WESTERN DONORS, SOME COMMUNIST COUNTRIES, AND NOW OIL-
PRODUCING STATES HAVE REPEATEDLY RESPONDED TO SRI LANKA'S
DEMONSTRATED NEED WITH SOLID AID CONTRIBUTIONS AND NEW
PLEDGES. AMONG MAJOR DONORS, UNITED STATES IS NOW MORE AND
MORE GLARINGLY CONSPICUOUS EXCEPTION IN WASHINGTON AND
AT HIGHEST LEVELS IN COLOMBO, GSL HAS RECENTLY REEMPHASIZED
NEED AND EXPECTATION OF FY-1975 PL-480 HELP. WE BELIEVE
FULFILLMENT OF OUR PUBLIC PLEDGE OF ASSISTANCE IS OF
UTMOST IMPORTANCE TO CONTINUATION OF CONSTRUCTIVE BILATERAL
RELATIONSHIP, WILL REINFORCE INTERNAL STABILITY, BOTH POLITICAL AND
FINANCIAL, AND WILL PROMOTE AMERICAN INTERESTS HERE.
VAN HOLLEN

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